

91. Similarly, the non-discrimination obligations on Ameritech's local service operations require a demonstration that the Ameritech affiliate is not receiving a preference in terms of costs, shared assets, planning or customer information as compared to what is available to competitors. The FCC addressed these in its First Report and Order in CC Docket No. 96-149, released on December 24, 1996 ("Separation Order"). In that Order, the FCC promulgated rules and policies implementing and clarifying the non-accounting structural separation provisions and nondiscrimination safeguards set forth by Congress in Sections 271 and 272 of the Act. As the FCC said:

These safeguards are intended both to protect subscribers to BOC monopoly services, such as local telephony, against the potential risk of having to pay costs incurred by the BOCs to enter competitive markets, such as interLATA services and equipment manufacturing, and to protect competition in those markets from the BOCs' ability to use their existing market power in local exchange services to obtain an anticompetitive advantage in those new markets the BOCs seek to enter (Separation Order, para. 6)

Further, the FCC's nondiscrimination requirements are broad and strict:

"We conclude therefore that, pursuant to section 272(c)(1), a BOC must provide to unaffiliated entities the same goods, services, facilities, and information that it provides to its section 272 affiliate at the same rates, terms, and conditions." Id., para. 202.

The FCC also acknowledges that "individual states may regulate such integrated affiliates differently than other carriers." Id., para. 317.

92. While information regarding Ameritech's intentions regarding its compliance with the safeguards of Section 272 were discussed in the Ameritech Communications, Inc. ("ACI") certification proceedings in this state, in light of

Ameritech's request for interLATA entry in Michigan. Ameritech should now provide specific information to this Commission regarding its compliance with the requirements of the Act. This is especially important in light of information recently developed in ACI certification proceedings in other states.

93. Let me mention just a couple of examples based on the limited information that is available. It recently emerged in the ACI proceedings in Illinois and in Ohio that Ameritech has constructed a fiber optic SONET ring in Chicago and Detroit, and that ACI's switching equipment is located on those rings. That is, Ameritech's most advanced facilities in Chicago and Detroit apparently consist of a dedicated Ameritech fiber optic ring and ACI switching. ACI contends that the dedicated fiber ring facilities were procured out of Ameritech tariffs, but has not identified the tariff. These facilities were constructed, apparently during 1995, when, by its own admission, ACI had at most a handful of Ameritech employees "dedicated" to ACI. Apparently, no payment has changed hands; Ameritech/ACI witnesses have indicated that they are simply keeping account of these transactions. (In fact, the "new entrant," ACI, reportedly has been the beneficiary of at least \$138 million in advances from Ameritech Corp.)

94. A host of questions arise, including what access to Ameritech Michigan's local service plans and network plans ACI had when these facilities were built; whether ACI has a separate franchise with the municipalities in question, and generally, whether and when ACI will operate in any meaningful sense independently of Ameritech Michigan; whether and when the transactions

between Ameritech Michigan and ACI can and will satisfy the "arm's length" standard; whether it is plausible that ACI has acquired its facilities from Ameritech Michigan without preferential access to "goods, services, facilities and information"; and finally, how ACI's "arm's length" obligation applies to Ameritech Information Industry Services ("AIIS"), a division of Ameritech Services, Inc., jointly owned by the Ameritech Operating Companies that will provide interconnection services to AT&T on behalf of Ameritech Michigan.

95. The fundamental lack of independence in the operations of the Ameritech operating companies and ACI was recently acknowledged by Ameritech Illinois. Recently Ameritech Illinois filed for "clarification" that expenditures by Ameritech affiliates other than Ameritech Illinois should count against the \$3 billion/five year commitment to invest in "infrastructure" that Ameritech Illinois made in securing alternative regulation in Dockets 92-0448/93-0239. Petition for Clarification of Investment Obligation under the Alternative Regulation Plan ("Petition for Clarification" or "Petition") filed September 20, 1996. In its Petition, Ameritech sought "clarification" that its "commitment was made, and should be construed to be, relative to the Ameritech family of companies." Petition, p. 2 (emphasis supplied). Ameritech's 1996 report under the Alt Reg Order in fact showed nearly \$200 million in unspecified "infrastructure expenditures" on the part of Ameritech Cellular, Ameritech Services, Inc., Ameritech New Media Enterprises and other entities. Ameritech in its Petition suggested that the "corporate family" viewpoint

## **VI. SUMMARY OF THE ACTIONS AT&T PROPOSES TO THE COMMISSION.**

97. Under the Federal Act, the FCC is required to consult with state commissions to verify Ameritech's compliance with the checklist requirements. In this proceeding, each of the AT&T witnesses has identified deficiencies in Ameritech's checklist compliance showing and recommends actions. In addition to those recommendations, I also have a number of recommendations that could help address a number of the issues raised in my testimony. Before this Commission reaches a decision regarding Ameritech's satisfaction of the checklist requirements, at a minimum, this Commission should require Ameritech to make a showing as to how it will satisfy the requirements and recommendations of AT&T's witnesses, including the following requirements:

98. For certainty of checklist availability, the Commission should at a minimum require that Ameritech:

- Provide a set of rates, terms and conditions for services offered to new entrants to which Ameritech commits regardless of the results of any legal challenges Ameritech may have pending before state or federal courts, unless some aspect of the courts' findings render the agreed upon terms unlawful.
- Describe the procedure that will be used when the parties and Staff believe that Ameritech's contracts or tariffs are not in compliance with

pertinent Commission orders, to preclude delay in implementation that would occur under the Commission's customary complaint and enforcement procedures.

99. To ensure reliability in the full availability of checklist items, the Commission should require Ameritech to provide operational experience that will:

- Demonstrate with specificity that the systems employed by Ameritech in the areas of provisioning, pre-ordering, ordering, repair and installation are actually operating at parity with regard to its own and competitors needs, for various customer categories and by various work areas.
- Demonstrate that the operating systems employed by Ameritech have the capacity to serve the actual and anticipated demands of Ameritech itself as well as those of competing local carriers. If local service systems have less capacity than interexchange systems in place, Ameritech should provide a detailed description of the manner in which it proposes to increase capacity to an equal level.
- Document that Ameritech's Operational Support Systems have been fully tested and judged to work properly and interface correctly with competitors' systems.
- Demonstrate that Ameritech's systems are processing customer requests for a change of local carrier as efficiently as they process customer requests for a change of interLATA carrier.

- Demonstrate, based on actual experience, that service quality trends are not declining with the advent of local competition.

100. To address the changes in the local telecommunications environment, the Commission should require Ameritech to demonstrate what Ameritech has done to insure that Ameritech employees function as "honest brokers" when they are obliged to provide non-discriminatory treatment of competitors, their systems and their customers. For example, Ameritech should show that Ameritech's Code of Conduct, training and compensation plans recognize this obligation.

101. Further, Ameritech should be required to demonstrate that carrier access charges paid by competitors are set at Ameritech's actual costs.

102. Ameritech should be required to demonstrate that Ameritech's affiliate, Ameritech Communications, Inc. is not receiving, directly or indirectly, preferential treatment as compared to other new entrants regarding prices, terms, conditions and access to services, systems, network planning information, and customer information. This can be shown by providing a description of the current state of operations of ACI, where, if at all, ACI connects to Ameritech's network, what services ACI provides, what access to assets and information ACI has, where ACI's employees come from, and what steps Ameritech is taking to assure that ACI is not in a preferential position compared to other new entrants on access to networks and customer information, and how Ameritech will comply with the

Joint Marketing and other requirements of §272(g).

This concludes my statement.

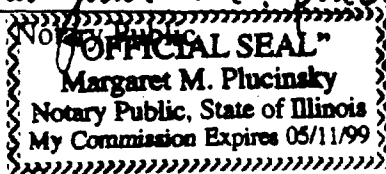
VERIFICATION

I, John Puljung, do on oath depose and state that the facts contained in the foregoing affidavit are true and correct to the best of my knowledge and belief.

*John Puljung*

SUBSCRIBED AND SWORN to  
before me this 7th day of  
January, 1997.

*Margaret M. Plucinsky*





# Holding the Line on Phone Rivalry

GTE Keeps Potential Competitors, Regulators' Price Guidelines at Bay

By Mike Mills  
Washington Post Staff Writer

Never mind the 10 years of debate, millions of dollars of lobbying and the signature of President Clinton: A federal court has put core provisions of the nation's new telecommunications law on hold. And a company called GTE Corp. is a big part of the reason why.

Embodied by revenue, GTE is the largest local phone company in the country (its service area includes Prince William County), but it has always been a quiet giant, willing to let the regional Bell companies grab the attention from the public and government regulators.

Now the company is throwing its weight around. With former Bush administration assistant chief William P. Barr on board as lead attorney, it played a central role in per-

suading a federal court in St. Louis last week to freeze key pricing provisions of the telecommunications law. That law orders local phone companies to help competitors get established by leasing them capacity on existing phone networks.

GTE has been busy in state regulatory bodies as well. It has sought rate increases in many states, including Virginia, arguing it will need more revenue to meet incoming competition. GTE also is seeking status as a "rural" carrier throughout Virginia and many other states, which could exempt it from cooperating with competitors at all.

"They've been doing this all over the country," said William Irbey, a telecommunications analyst for the Virginia State Corporation Commission. GTE's is "the most contentious major rate case we've had in this commission since the early 1980s," Irbey said.

See GTE, C14, Col. 1



FILE PHOTO BY AP/WIDEWORLD  
WILLIAM P. BARR  
... courts as GTE's legal boss

C14 WEDNESDAY, OCTOBER 23, 1996

THE WASHINGTON POST

## Quiet Giant Puts Hold On Local Phone Rivalry

GTE From C13

GTE says its regulatory success has one aim: To make sure the company is properly compensated by customers and competitors who use its network. "We have been negotiating and will continue to negotiate with any and all competitors," said Stephen Spencer, GTE's Virginia director of external affairs.

Many people are surprised to learn that the biggest local phone company isn't a Bell. But with revenue of \$20 billion last year, GTE holds that title, having spent decades assembling a collection of phone systems. While the Bells control distinct regions of the United States, GTE's 28-state service territory looks like a shotgun blast on the U.S. map, with small phone systems dotting largely rural areas across the country.

GTE wasn't part of the deal that broke the seven Bells off from AT&T Corp. in 1984, and has often parted ways with them in the debate over telecommunications policy.

The biggest thing separating them now is long distance. The recently enacted law grants the Bells' wish to enter the long-distance business, which was barred to them by the 1984 deal, but it sets up a trap: They first must prove they face competition in their local phone monopolies.

That means negotiating "interconnection" deals with companies that want to compete against them in the local phone business. If voluntary agreements fail, state regulators can act as arbitrators.

That long-distance carrot does not apply to GTE, however. GTE has been free since 1992 to offer long-distance

service. That gives GTE a bargaining advantage over future rivals that the Bells do not enjoy, said Dick Nottelmann, chief executive of the Midwestern Bell company Ameritech Corp. The big difference between us and them is they're already in long distance," he said. "What's their incentive to cooperate?" he asks.

"It's one of the biggest shortcomings of the telecommunications act," said Irbey of Virginia's State Corporation Commission. "There's nothing in it for them, so they're doing everything they can to fight competition."

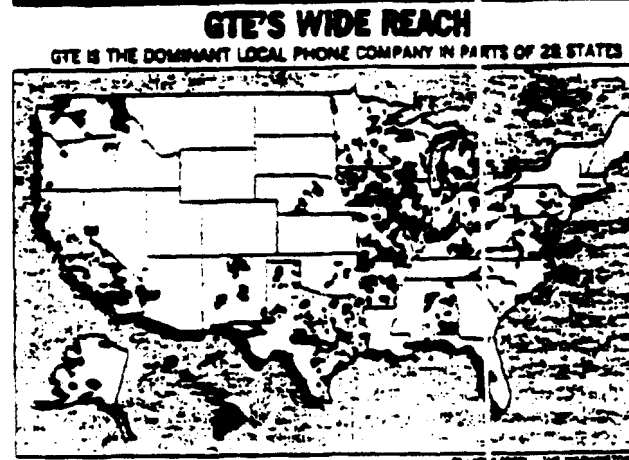
GTE officials deny they have the upper hand, and say they will allow competitors into their market because the law requires it. "It's not an incentive system. It's the law of the land," said Bob Brand, GTE assistant vice president for external communications.

But in Virginia, Bell Atlantic Corp. generally has been more cooperative with potential rivals than has GTE.

When the federal pricing rules were frozen by the St. Louis court last week, Bell Atlantic and AT&T told Virginia regulators that an earlier agreement to use the pricing rules until final cost studies were completed would remain intact. GTE would make no such deal.

Voluntary negotiations between GTE and AT&T "have really not gotten very far, if anywhere," said William McCarey, vice president for government affairs for AT&T's Atlantic region. "We will have to literally arbitrate virtually all of the issues before the commission."

GTE officials said the court's "stay" of the rules gives them the opportunity to present their own cost models and



they hope, to persuade regulators that the FCC's guidelines were too low.

For example, GTE claims that Bell Atlantic serves a far denser population (180 lines per square mile, compared with GTE's 48 lines), and thus has lower costs that enable Bell Atlantic to accept lower prices for leasing its network.

GTE also is among the first phone companies in the nation to ask for rate increases in the aftermath of federal legislation, which lawmakers promised consumers would lead to more competition and lower rates.

GTE first asked to raise rates for Virginia customers in June 1995, but amended its request this year amid public outcry. Its current plan is to raise rates from a range of \$6.60 to \$13.83 to a new range of \$12.98 to \$16.83.

The extra money is needed, GTE says, to help it "rebalance" its revenue sources in the face of competition.

GTE also is arguing that it should be deemed a rural carrier in Virginia—a designation in the new law that exempts remote phone companies from requirements to cooperate with future competitors. If the commission

agrees, competitors would have to prove—if they are allowed to compete at all—that their connections to the local phone network wouldn't impose "economic or technical" burdens on the original carrier.

GTE argues that, while its phone network covers 25 percent of the state's land mass, it serves just 12 percent of Virginia's telephone customers. "Nearly 30 percent of our line [nationwide] qualify under the definition in the act, as it is in Virginia, all of our lines do," Brand said.

AT&T's McCarey said GTE should not be allowed to include well-populated, high-growth areas such as Manassas and Dale City in Prince William County as rural. GTE was that designation, she said. "There's not much likelihood of competition developing in GTE territory in Virginia."

**FOR MORE INFORMATION**  
For a corporate profile of GTE, including updates on stock quotes and recent SEC filings, click on the above symbol on the first page of The Post's site on the World Wide Web at: <http://www.washpost.com>

# Ameritech's 16,000 service people know every little hole-in-the-wall in Detroit. Will AT&T's?

Exhibit JJP-2

Our people not only know their way around digital multiple xers and PBXs, they also know their way around Detroit. Something you'll appreciate if some night you have a breakdown. But there are other good reasons to stick with Ameritech.

1 First of all, Ameritech is your next door neighbor, not some gargantuan company from New Jersey like AT&T. When you think about it, how're they going to provide great service all the way from New Jersey?

2 We were the company that built this network. Who's better qualified to service it?

3 We've been providing local service to this region for over a century. We've put through virtually every call you've ever made from Illinois, Wisconsin, Ohio, Michigan, and Indiana. That's a lot of calls.

4 In fact, we've had some 26 million operators assist calls every day.

5 And that's for all hands, despite the fact we have highly efficient operators who answer those calls in English and Spanish, as well as Polish.

6 Our direct assistance operators handle 500 calls a day each. And because these operators are local folks, they know your town and can help you find the number or address you're looking for better than anybody.

7 All told, there are 60,000 Ameritech employees in the Midwest.

8 And 95% of them are Ameritech shareholders, not just employees, but owners. Which means they have a vested interest in seeing that you are a happy customer.

9 7,300 of them are technicians. All trained in answering the 3.9 million service calls we get every year to hook up new services or make installations. And let's say they know this town, they probably won't need a map to find your house. Just a trick.

10 Which we have 11,000 of. In the



11 We also maintain 100 permanent service facilities in the five state region.

12 We provide service for more than 15 million access lines to homes and businesses. A number of us have hooked up a new line like we've done it a hundred times. We have 13 We've installed enough copper wire in the Midwest to

stretch to the sun and back. (That's 156 million miles. Can we make it all the way to your new house? Probably.)

14 We've put down over a million miles of fiber optic cable in the Midwest.

15 We've installed 212,000 pay telephone units on our five state area. So you can be sure there's always one nearby.

16 Therefore, we invest \$2 billion a year in maintenance and upgrading the network in your area.

17 We spend \$1.5 billion on equipment to improve the network. Billion, not million. (We spent that much to make sure that next time you drop in a pay phone gets a dial tone.)

18 And you get that tone faster than any of the time. That's an independent measurement of the reliability of our network. That's not perfection, but we're working on it.

19 We have expertise in complex information processing. We provide connections and software solutions for more than 3,000 libraries around the world, including the New York Public Library and the Library of Congress.

20 We maintain a Human Factors Department that does what we call first things: a place where we test every new Ameritech product and service to make sure it's simple and easy to use before we offer it on the market.

21 Products like Caller ID With Name, which lets you know who's calling before you answer.

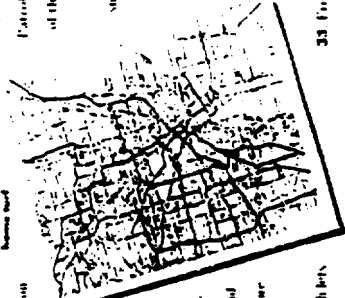
22 Voice Mail. A service that works like an answering machine, but without the tapes.

23 Pay per use features that are built into your service free of charge, and there when you need them. Like Automatic Callback and Repeat Dialing.

24 Ameritech cellular service for local and long distance calling.

25 VoiceSelect. So Ameritech Cellular customers can dial by voice, and keep their eyes on the road.

26 Telephones. Yes, Ameritech actually



sell phones, some with built-in services for Caller ID. And you can order them over the phone. (1-800-640-1111) And have it charged to your phone bill.

27 The most experienced ISDN provider in the country. ISDN gives you double speed and capabilities to connect your computer to your local clock or computer.

28 Distinctive ringing networks that serve nearly 100 local schools, colleges, and universities.

29 Free cellular phones, pagers, and anytime for cellular neighborhood watch groups. Through our Cellular Patrol program we help people take back control of their neighborhoods.

30 We have over 1,000 employees serving small businesses. Our customers are local.

31 1-800-TELEDATA, 1 of our shop business communications shopping.

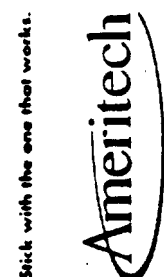
32 We maintain what we call first things: a place where we test every new Ameritech product and service to make sure it's simple and easy to use before we offer it on the market.

33 Free listing in the PagesPlus directory.

34 The option to add e-mail addresses and World Wide Web URLs to some phone directories.

35 Ameritech enhanced cable television service, which will soon be available featuring more programming choices and exciting new interactive capabilities.

That's the abbreviated list. There are more reasons for sticking with Ameritech, but they can wait till we can give a bigger ad.



YOUR LINK TO BETTER COMMUNICATION

Stick with the one that works.

# 19,024 advantages Ameritech has over AT&T. 19,000 of them being a huge service fleet.

**1 through 19,000.** OK, the first 19,000 are easy. That's the size of the fleet we maintain in this area. When AT&T begins their local rollout, we'll have hardly any trucks on the street. Still sure you want "switching?" Hold on. There's more.

**19,001.** Then there are the 60,000 people employed by Ameritech in the Midwest.

**19,002.** 7,500 of them are technicians. All trained to answer the 3.9 million service calls we get every year.

**19,003.** We maintain 600 permanent service facilities in the five-state region.

**19,004.** We provide service to more than 1 million access lines in our territory.

**19,005.** We have installed enough copper wire to stretch to the sun and back.

**19,006.** And over a million miles of fiber cable here within our five-state area.

**19,007.** We spent \$3.5 billion on equipment to improve the network. (To be sure that next 35¢ you drop in a pay phone gets a dial tone.)

**19,008.** And you get that tone almost all the time.

**19,009.** We have 4,900 highly efficient operators who use...

**19,010.** ...the best database available regionwide and... **19,011.** ...handle a flood of 2.3 million customer calls that we receive every day.

**19,012.** We provide connectivity and software solutions for more than 500 libraries around the world, including the New York Public Library and the Library of Congress.

**19,013.** Pay-per-use features that are built into

your service and there when you need them. Like Automatic Callback and Repeat Dialing.

**19,014.** Distance learning networks that serve nearly 400 local schools, colleges, and universities.

**19,015.** 1-800-TEAMDATA. For one-stop business communication shopping in our five states.

**19,016.** Ameritech cellular service for local and long distance calls. (For the on-the-go and go-on-the-go, we make it as easy as calling 1-800-MOBILE1.)

**19,017.** Telephones. Yes, Ameritech actually sells phones, some with built-in screens for Caller ID. And you can even order them over the phone (1-800-650-LINK) and have it charged to your bill.

**19,018.** Plus SecurityLink

from Ameritech, our electronic security monitoring company that calls the police or fire

department in case of a break-in or fire. Think of it as the security system that turns your phone line into a watchdog.

**19,019.** Convenient Ameritech calling cards.

**19,020.** Free PagesPlus directory listing.

**19,021.** With the option to add e-mail addresses and World Wide Web URLs in some phone directories.

**19,022.** ISDN expertise. ISDN allows voice and data signals to be sent over the same line at the same time. Ameritech carried out the first commercial trial of ISDN service in 1986 and it's quickly becoming the wave of the future.

**19,023.** americast enhanced cable television service, which will soon be available featuring more programming choices and exciting new interactive capabilities.

**19,024.** Peace of mind. People seldom give a second thought to their Ameritech service. It's always there when they need it. Do we enjoy being taken for granted? Well, with a reliability rate of 99.9%, it sort of comes with the turf.

**Stick with the one that works.**

## Ameritech

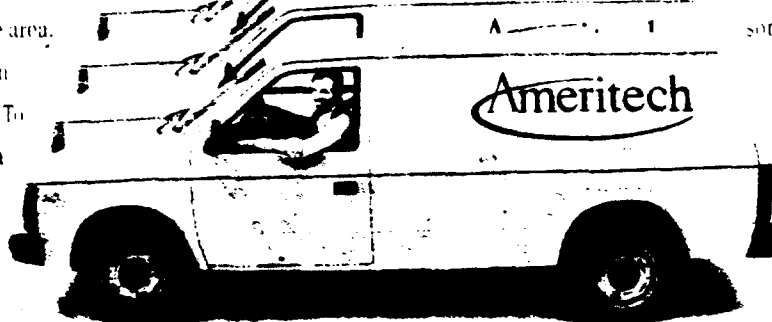
**YOUR LINK TO BETTER COMMUNICATION®**



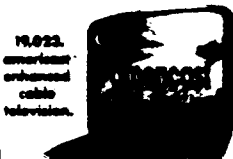
**19,016.** Long distance cellular.



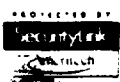
**19,018.** We built the network. We're best qualified to service it.



**1 through 19,000.** You've seen our 19,000 trucks all over the place. Now count how many AT&T trucks you see.



**19,012.** americast enhanced cable television.



**19,018.** Home security systems.

Ameritech Communications, Inc.  
Case No. U-10934  
Of: AT&T  
No: Third  
Date: December 14, 1995

Exhibit JJP-4

**ATAC0072**

Please identify and describe all meetings which occurred on November 7, 1995 in New York between Ameritech representatives or officials and any financial analysts. For each meeting identified, please identify all Ameritech personnel present.

**Response**

ACI objects to this discovery request for the reason that the information requested is not relevant, nor is it reasonably calculated to lead to the discovery of admissible evidence. Information shared between representatives of Ameritech Corporation, ACI's parent corporation, and investors is irrelevant to the issue of whether ACI has the managerial, technical, or financial capability to provide basic local exchange service to customers in its proposed geographic territory in Michigan. Notwithstanding this and all other applicable objections, and without waiver thereof, meetings were held on November 7, 1995 in New York City between Richard Notebaert, Oren Shaffer, Sari Macrie, and Marty Hegglin on behalf of Ameritech and investors. Attached are first call reports on the meeting prepared and issued by Merrill Lynch, Smith Barney, and Prudential Securities.

03:53pm EST 8-Nov-98 Merrill Lynch (D. Reingold (312) 449-8631) AIT  
 ANCHITCH: Building Shareholder Value

MLA+MLA+ML Merrill Lynch Global Securities Research MLA+MLA+ML  
 ANCHITCH (AIT/STON)  
 Building Shareholder Value  
 Dan Reingold (312) 449-8631

Price (AIT-NYSZ):	\$52 1/2	KPS (Dec)	P/E
52-Week:	\$55 38 1/2	1996E: \$3.75	14.0
Opinion:	B-2-1-7	1997E: \$3.40	15.4
Est 5YR KPS Growth:	10%	1994: \$3.07	17.1
Ind Div:	\$2.00	3QAct: \$0.84 vs \$0.76	
Yield:	3.8%		

#### INVESTMENT HIGHLIGHTS:

- o AIT's top management made positive, presentations to well attended analyst meetings in New York on November 7, 1998.
- o The CEO discussed 3Q results, the 5th consecutive period of double digit earnings growth, indicated that analysts' estimates were achievable (vs estimate, KPS of \$3.40 in 98 and \$3.75 in 96) and stated revenue growth may even pick up with strong earnings growth likely to continue.
- o Strategies discussed included grow the core businesses (local wireline/wireless/Directory), grow product and service businesses (long distance, cable, electronic commerce and security monitoring) and grow outside the Midwest, domestic and international.
- o The CEO was confident there would be telecom legislation voted out of Congress in December, on the President's desk by year end and sufficiently modified to assure no veto by the President, and yet fair to local telephone companies.
- o AIT is planning to be in the long distance business in 1996, expects to achieve a greater than 10% market share and be profitable within 3 years. The company estimates 60% of InterLATA traffic originates and terminates in region which we view as a very positive number. To establish a LD network within region, AIT would have to spend less than 3 months cash flow, a small investment for entry into a market which could grow in the \$ to \$8 range and is estimated by the company to be \$8.5 billion in the AIT service area.
- o Telephone access line growth of 4.4% for the year ended September '90 was spurred by second line growth. Second line penetration is only 10% and, with usage approaching first line employment, offers solid growth potential. Second lines are being used for data, fax and Internet as well as simple voice grade messaging.
- o Cellular subscribers were up 47% in the latest period despite the absence of advertising in the third period. The company will be proceeding full out to ad new subs in 4Q. Churn in the cellular area is a far below average 11% on an annual basis.

• AIT, after acquiring National Guardian, is the second largest security monitoring company, with a \$280 million annual run rate. AIT projects market growth of 18 - 22% to the year 2000 for this estimated \$14 billion industry. Margins are quite good, the potential for added acquisitions exists and industry characteristics dovetail with Telecom.

#### **INVESTMENT CONCLUSION:**

The AIT meetings in NY re-affirm our optimism for the company and its shares. We see a management committed to Building Shareholder Value. We expect as much as a 6% dividend increase December 30 and view the shares as attractively valued relative to prospects, the XROC group and the market.

**Industry: Telecommunications/Services - Local**

**Investment Strategy Industry Weighting: INCOME(+), GROWTH(-), CAPITAL APPRECIATION(=)**

**Technical Analysis Industry Rating: AA**

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Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have a positive or adverse effect on an investor's return upon the conversion into local currency of dividends or interest received, or proceeds from the sale of such securities. In addition, investors in securities such as ADRs, whose values are influenced by foreign currencies, effectively assume currency risk.

**END OF NOTE**

09:01am EST 8-Nov-95 Prudential Securities (J. SMITH (212) 778-1777) AIT  
 AIT: ANALYST MEETING VERY UPLIFT, NOT AT CURRENT STOCK PRICE LEVELS

AIT: ANALYST MEETING VERY UPLIFT, BUT AT CURRENT STOCK PRICE LEVELS, WE'RE ST.  
 SOMEWHAT NERVOUS ABOUT COMPETITION

R E S E A R C H N O T E S

Subject: Ameritech (AIT--52 1/2)--NYSE

TELECH

CON EPS

November 8, 1995

OPINION

Current: Hold

Prior:

RISK: Low

Analysts: Joanne C. Smith, CFA (212) 778-1777  
 Kevin C. Condon (212) 778-1373

Ind. Div.: \$2.00 Yield: 3.84 Shares: 584 mil. 52-WK. Range: 33-40

EPS	PE	Year	9/8	10	90	90	90	90
Actual	12/94	\$ 3.0700	17.1X	30.69	30.61	\$ 0.76	\$ 0.81	OCF*
		\$ 7.0800	7.4	1.69	1.84	1.78	1.78	

EPS	12/95E	\$ 3.48E+13.4E	30.74E	\$ 0.81E	\$ 0.84E	\$ 0.90E
OCF*		\$ 7.25E+7.2	1.71E	\$ 1.88E	\$ 1.81E	\$ 1.88E

EPS	12/96E	\$ 3.70E	14.2E	\$ NA	\$ NA	\$ NA	\$ NA
OCF*		\$ 7.70E	6.8	\$ NA	\$ NA	\$ NA	\$ NA

\*OCF = Gross Cash Flow (Net Income + Depreciation) per share. \*\*Reported EPS are (\$1.94) for 1994 and \$3.77 for 1995E. Reported OCF are \$2.10 and \$7.66 per share, respectively for 1994 and 1995E.

Yesterday, Dick Notabart, Ameritech's enthusiastic Chairman and Chief Executive Officer hosted analyst meetings in New York to discuss the company's future prospects, particularly in light of their upcoming entry into long distance regardless of the pending telecom legislation in Congress. We believe that Ameritech's strategy of an offensive defense is probably the right one for the given the aggressive competition that has already been seen within its own territory, particularly in the Chicago area. As a result, Ameritech is about well-positioned to take on competition as any monopoly carrier could be. Approximately two thirds of top management has a non-telephone background. The question however remains, what happens to margins and growth once the floodgates open? We believe in the long run, that the most competitive RMCs are likely to prosper in this environment. However initially, we believe that pricing could become somewhat irrational (as we saw in Chile), which, combined with increased spending on advertising and marketing is likely to depress margins. Regardless AIT believes that by year three, with 10% market share, long distance should prove a profitable business. We maintain our Hold rating on Ameritech, which we believe is currently fairly valued.

RESALE AGREEMENT BASED ON LONG RUN AVOIDABLE COST YIELDS 20% DISCOUNT TO RETAIL

Ameritech has agreed to open up its local monopoly to competitors and just recently (November 2) signed a 7-10 year agreement with U.S. Network, a long distance reseller, to resell AIT's local loop to business customers for what amounts to a 20% discount off the retail price. Management indicated yesterday that this price represents retail prices less long run avoidable costs, rather than simply a particular discount of retail, similar to language in the House version of the telecom bill. This discount is significantly higher than that offered by Frontier in the Rochester area, which is about a 5% discount off of retail. Congress is currently wrestling with language on this issue to determine how this would be handled in the legislation that is currently pending.

conference committee approval. We believe the language is likely to be vague in order to give the FCC the flexibility to determine what is the best form Ameritech's strategy is that if long term commitments are made, Ameritech is willing to offer greater discounts than it would have otherwise. ATT has 21 tariffs for their resale rates, which include discounts starting at 64 and 304, depending upon volume and term commitments. Since it is a tariff filed Ameritech must make these rates available to all those that request it. The company would rather have lower-but-still-profitable-margined tariffs pumped through its network, as opposed to bypassing it entirely, essentially losing revenues from the network that translates to a competitor. Despite this, ATT and MCI's response to Ameritech's filing was extremely at best. We believe the strategy is the best way to win in a competitive environment, although only a few cost providers are likely to prosper over time under this scenario; Ameritech currently is the most efficient telephone company among the RBOs in the, serving 370 lines per telephone employee, versus the average of approximately 306.

CONFERING DEPARTMENT OF JUSTICE FILING DOES NOT ALLOW ATT'S LONG DISTANCE LAW :  
DAS ATT'S FURTHER REGULATIONS EFFECT REDUCE

Yesterday, we learned that the filing with the Department of Justice for ATT's entry into long distance in its trial areas does not allow for the long distance company to utilize the trunking currently owned and operated by Ameritech's local exchange company. Rather, the long distance arm of Ameritech must own operate its own trunks, and either lease or build its own trunking capacity. It is unclear whether or not the current telecom legislation pending in Congress is going to be more flexible than what has already been approved by Department of Justice in the case of Ameritech. Management indicated yesterday that it was quite feasible from both a technical and economic perspective to operate long distance within region through its own facilities, including trunking, due to the extensive amount of interoffice trunking that currently exists. Mr. Norabout indicated that they believed that it would take only a two to three months of free cash flow in order to reconfigure the network to provide in-region long distance over its own facilities. Unfortunately, at the time it is unclear if either the legislation or regulation would allow this to happen. If so, it certainly could give a more economic alternative to provide of long distance within region for the RBOs.

Our full cost research reports and associated graphs are now distributed over First Call Research Direct. For more information on this system, please call Research Direct sales at (800) 833-7334 Boston, 44 171 369 7230 London, 813 9213 7300 Tokyo, 852 2530 1235 Hong Kong, 85 295 5688 Singapore.

END OF NOTE



05:53AM EST 6-Nov-95 Smith Barney (SCHILLER/BERMAN (212) 816-6254) AIT  
AMERITECH COMMUNICATES ITS LONG-TERM STRATEGY AT INVESTOR CONFERENCE

Ticker: AIT		AMERITECH		Current Price		
Price: \$2.50		\$2 Wk Range: \$2.00 - \$2.50		Rank: 2-L		
Pricing: 11/07/95		(Release Date: 11/08/95)		Target Price: \$2.00		
<hr/>						
Fiscal Year:	Dec	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Year
Actual	1994 EPS	\$0.69A	\$0.81A	\$0.76A	\$0.81A	\$3.07A
Previous	1993 EPS	\$0.76E	\$0.91A	\$0.84A	\$0.89E	\$3.40E
Current	1993 EPS	\$0.76E	\$0.91A	\$0.84A	\$0.89E	\$3.40E
<hr/>						
Previous	1996 EPS	\$N/A	\$N/A	\$N/A	\$N/A	\$3.74E
Current	1996 EPS	\$N/A	\$N/A	\$N/A	\$N/A	\$3.74E
<hr/>						
Previous	1997 EPS	\$N/A	\$N/A	\$N/A	\$N/A	\$4.13E
Current	1997 EPS	\$N/A	\$N/A	\$N/A	\$N/A	\$4.13E

Price (As of 11/07): \$2.50  
Return on Equity (94): 24.30%  
Shares Outstanding: 554.04 mil  
Mkt. Capitalization: \$29087.10 mil  
Current Book Value: \$12.56  
LT Debt-to-Capital: 47.73%

Revenue (1993): \$13811.00 mil  
Proj. 3yr EPS Grth: 10.0%  
Dividend, Yield: \$2.00, 3.8%  
P/E 94, 96: 15.4 X; 14.0 X  
Comments:  
Hedge Clause(s):

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**Opinion:**

1994A excludes a \$0.61 charge in 1Q; \$0.30 charge in 3Q; and \$4.11 charge in 4Q.

1995E excludes a \$0.29 gain in 2Q95 and an \$0.08 gain in 3Q95.

AIT presented an upbeat outlook for the company yesterday, November 7, 1995, at a meeting with the CEO, Dick Netebeart and several analysts in New York. The general thrust of Netebeart's comments was that the outlook for all of its communication operations was very positive, the company was very optimistic that it could meet analysts current earnings expectations and could grow EPS at a 10% plus rate. While there were no major revelations, we thought the company strengthened its case that it has developed a cohesive strategy to grow earnings. Ameritech is pursuing a three part strategy to enable it to meet these targets: 1) serving customers better than ever within the profile of today's business; 2) expand into new businesses such as cable, information services etc.; 3) grow new businesses, both out-of-region domestically and internationally. Ameritech believes each strategy will contribute 6%, 2% and 2%, respectively to long term earnings growth. Based on our recently revised upgraded growth rates for the telephone operations of the large telcos, we believe that these targets are achievable. Growth could be 3% above these projections, starting in 1996, based on the InterLATA opportunity in-region, which the company estimates is an \$8.5 billion incremental revenue opportunity. The company estimates that it could provide in-region long-distance services using its own infrastructure with only \$200-\$300 million in incremental capital expenditures. We value AIT at \$62 per share, which is a market multiple on estimated 1997 EPS of \$4.13. We reiterate our 2-L (Outperform, Low Risk) rating.

HIGHLIGHTS OF THE MEETING AND SIDE CONVERSATIONS WERE AS FOLLOWS:

Management is focused on the enormous growth potential in the communications industry. AIT believes that data networking, transaction processing, wireless, Internet access, cable penetration, and other communication services will continue the explosive growth exhibited over the last several quarters. AIT believes that competition will expand the overall communication market allowing the U.S. market to grow from roughly \$250 billion this year to \$330 billion by 2000.

The company has been preparing for this strong projected growth and competition for the last ten years. Prime emp regulation has accelerated this process. Over the last 30 months AIT has dramatically prepared for competition by driving out costs and reengineering the systems and process and corporate culture of the company. AIT currently operates an almost completely modernized network with only 37 employees per 10,000 access lines, the most efficient operator in the industry. AIT is targeting continued productivity improvements of 5-7% per year. Currently three quarters of the fifteen line-of-business unit presidents are from outside the industry, 30% of the managers in network operations are from outside the communications industry this trend should continue. The company is doing a better job at segmenting its markets and will attack these markets with customized products, shorter cycle times and new information technologies with a newly trained 4,000 person sales force. Deregulation has allowed the company to decrease its capital expenditures from the \$2 billion per year range to \$1.6 billion. The company is concentrating capital expenditures on value added services that offer the highest return on investment.

In this regard the company believes that value added and additional services can add \$500 million per year in high margin revenues. In this regard, AIT experienced 189% growth in caller ID since 1994 (2 million subscribers, 17% penetration), 86% growth in voice mail (650 thousand subscribers, 5% penetration), and 31% growth in additional phone lines. Although the company will have to increase SG&A to both grow the market and be more competitive, the cash-flow margins are very high on these products which will still allow these services to contribute significantly to net income. In addition, AIT believes, as do all the RBOCs, that in its region it has a very strong name-brand, second only to AT&T.

AIT will also grow revenues from services in which it possesses core competencies, such as security monitoring (\$14 billion industry growing at 11% per year), electronic commerce/content (\$45 billion industry growing at 13% per year), managed network services (\$28 billion industry growing at 16% per year), and cable TV (\$26 billion industry growing at 10% per year).

Security monitoring is an example of the company entering a related business in which it possesses core competencies. Ameritech recently purchased two alarm monitoring companies which increased made it the second largest provider in the industry at roughly \$150 million dollars per year. AIT believes that it has several skills that will help it to excel in this industry including: (1) strong quality service, (2) an effective operator of networks, (3) ability to improve operating efficiencies, and (4) ability to increase monitoring revenues through improved sales and marketing.

The company is not analyzing these new businesses as a stand-alone services but as part of a long-term strategy of bundling local telephony, long-distance, wireless, and enhanced cable services with content and other value added services.

**1996-97 EARNINGS PROJECTIONS.** Over the past several years aggressive selling combined with strong operating growth has allowed revenues to grow in the 64 range. The companies well developed marketing plan and growth of new services should allow this continue, and improved productivity will allow EPS to grow in the 104 range.

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**END OF NOTE**

**Example: Operational  
Implementation Delay -  
Informal Complaint regarding  
Service Intervals**



June 18, 1996

Charles E. Fisher, Executive Director  
Illinois Commerce Commission  
537 East Capitol, PO Box 19260  
Springfield, IL 62794-9260

Dear Mr. Fisher:

Pursuant to 83 Ill. Admin. Code Section 300.160, Consolidated Communications Telecom Services Inc. ("CCTS") is sending you this informal complaint against Ameritech regarding its provision of unbundled loop services.

Specifically, Ameritech service installation intervals for CCTS unbundled loop customers range from 5 to 15 work days from the date Ameritech receives the order from CCTS. In contrast, it is our understanding that the service installation intervals for Ameritech's own bundled access line customers are substantially less. The result of Ameritech's conduct has been the loss of CCTS customers to Ameritech, which has adversely affected CCTS's competitive position. This conduct is a violation of 83 Ill. Admin. Code Section 700.310(b). In addition, Ameritech's conduct amounts to discrimination against CCTS customers in favor of its own customers in violation of Section 11-908.2 of the Public Utilities Act and the spirit and intent of numerous other Commission orders addressing competition.

The relief CCTS is seeking through this informal complaint is a determination by the ICC Staff that Ameritech is in violation of the above referenced statute and rule, and action by the Staff informing Ameritech that it must comply with the foregoing statute and rule, and may no longer discriminate against CCTS.

We hereby request that Staff expeditiously review this informal complaint, given the time sensitive nature of our competitive efforts. If you have any questions concerning this letter, or need additional information to perform your investigation, feel free to call me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Edward B. Pence".

Edward B. Pence  
Consolidated Communications Telecom Services Inc.

CC: Charlotte TerKourst  
Myra Karegianas  
Debi Barr-Holquist  
Carrie J. Nightman



July 30, 1996

Ms. Donna Caton  
Chief Clerk  
Illinois Commerce Commission  
P.O. Box 19280  
Springfield, IL 62974-9280

Dear Ms. Caton:

Enclosed please find an original and fifteen copies of Consolidated Communications Inc.'s Comments in ICC Docket No. 96-NOI-1. Please stamp and return the additional copy enclosed as proof of filing.

If you have any questions, please call me at 217-235-4457.

Sincerely,

A handwritten signature in cursive script, appearing to read "Edward B. Pence".

Edward B. Pence  
Senior Manager - Regulatory Services

**STATE OF ILLINOIS****ILLINOIS COMMERCE COMMISSION**

<b>Illinois Commerce Commission</b>	:	
<b>On Its Own Motion</b>	:	
<b>Notice of Inquiry concerning</b>	:	<b>96-NOI-1</b>
<b>Illinois Bell Telephone Company's</b>	:	
<b>compliance with Section 271(c) of</b>	:	
<b>the Telecommunications Act of 1996.</b>	:	

**CONSOLIDATED COMMUNICATIONS INC.'S  
INITIAL COMMENTS IN RESPONSES TO RESOLUTION**

**Introduction**

Consolidated Communications Inc. ("CCI") has two subsidiaries which provide local exchange services in Illinois. Consolidated Communications Telecom Services Inc. ("CCTS") is certificated to provide resold local exchange services statewide and facilities-based local exchange services in exchanges served by Illinois Bell Telephone Company ("IBT"). CCTS has been competing on a resale basis for centrex customers in numerous IBT exchanges for over one year. Since May 1, 1996, CCTS has been competing on a facilities basis utilizing IBT's unbundled loops and its own switching capacity for residence and business customers in three downstate exchanges served by IBT. Another CCI subsidiary, Illinois Consolidated Telephone Company ("ICTC"), is a 102 year old incumbent LEC which serves approximately 85,000 access lines in 37 exchanges in central Illinois.

**Responses**

(3) For each entity which has been certified in Illinois to provide:

- (a) facilities based local exchange service; and/or,
- (b) resold local exchange service; and/or,
- (c) exchange access service,

state whether such entity is providing:

- (a) business exchange service;

- (b) residential exchange service;
- (c) business exchange access service or residential exchange access service, identifying special or switched access.

**Response:**

Both ICTC and CCTS provide business, residence and exchange access services, including special and switched access services.

(4) Identify all entities which have: requested interconnection or unbundled elements from Illinois Bell Telephone Company; or, requested the ability to resell Illinois Bell Telephone Company's services. With respect to each of these entities, specify:

- (a) the types of interconnection, unbundled elements or services requested;
- (b) the date that each request was made; and,
- (c) the requests with respect to which Illinois Bell Telephone Company and the requesting entity have entered into binding agreement.

**Response:**

At the time CCTS began preparing to offer local service in competition with IBT, prior to passage of the Telecommunications Act of 1996, the only arrangements available to CCTS were the unbundled services IBT offered under the tariff it filed pursuant to the order in the Customers First docket. In August 1995, CCTS began purchasing virtual collocation and unbundled loop services from IBT's tariff. CCTS has since requested alternative interconnection arrangements from IBT, including both physical collocation of CCTS switching equipment in IBT's offices and a copper tie cable, but those requests were denied by IBT because it does not allow other carriers' equipment, other than transmission equipment, in its central offices. As a result of these and other issues, CCTS and IBT have not entered into any agreement for interconnection or unbundled services. CCTS and IBT continue discussions regarding the possibility of entering into such an agreement. However, based on the agreements which IBT has entered into with other carriers who have significantly greater negotiating power than CCTS, CCTS is not optimistic that negotiations will result in an acceptable contract that would be preferable to the tariff.

(6) This question is directed to those entities identified in question three (3) that hold certificates to provide facilities based and/or resold local exchange service, in Illinois Bell Telephone Company's service territory. Identify,

- (a) the number of access lines in Illinois Bell Telephone Company's service territory that are served by the entity;
- (b) the number of locations of the Illinois Bell Telephone company switches in Illinois that are connected to local loops served by the entity;
- (c) the scope of the geographic area, and the number and type of customers for which the entity's services are available within Illinois Bell Telephone Company's service territory;
- (d) the extent to which the entity is using its own facilities to provide service or is using unbundled elements or resold services obtained from Illinois Bell Telephone Company;
- (e) A description of the entity's facilities in operation in Illinois Bell Telephone Company's service area;
- (f) whether the entity is currently constructing or significantly expanding their facilities in Illinois Bell Telephone Company's service territory, and, if so, when the construction/expansion is expected to be completed; and,
- (g) the average provisioning intervals and maintenance times for services Illinois Bell Telephone Company provides to the entity.

**Response:**

- (a) CCTS serves approximately 2,500 access lines in DFT's service territory.
- (b) For facilities-based services, CCTS is connected to three switches in Springfield, two switches in Decatur and two switches in Champaign/Urbana.
- (c) The geographic area in which CCTS's facilities-based local services are available are the DFT exchanges of Springfield, Decatur, and Champaign/Urbana. Although DFT, not CCTS, has access to this information, to the best of CCTS's knowledge, the number and types of customers to which CCTS's services are available are as follows:
  - approximately 65,000 residence and 30,000 business customers in Springfield;
  - approximately 37,000 residence and 17,000 business customers in Decatur, and;
  - approximately 30,000 residence and 16,000 business customers in Champaign/Urbana.



(d) For its facilities-based services, CCTS is utilizing its own switching, fiber optic transport and digital loop carrier facilities in conjunction with IBT's unbundled loop facilities. CCTS is also in the process of putting in its own local loop facilities to one customer. CCTS is using IBT's 9-1-1 router and directory assistance services and is also using IBT's outside installation and maintenance workforce to supplement its own installation and maintenance workforce. For its resold local services, CCTS resells all IBT services and uses none of its own facilities.

(e) CCTS facilities in IBT's service area include digital loop carriers and fiber optic terminals in IBT's offices, and fiber optic cable and transmission equipment to connect the IBT offices to CCTS POP locations in each exchange.

(f) CCTS is not constructing nor significantly expanding its facilities in IBT's service territory, for several reasons. First, in CCTS's first few months of limited service, it has discovered that there are additional required costs associated with IBT's interconnection and unbundled services which, in total, make these services much more expensive than if the customer purchased the bundled service directly from IBT. For example, IBT has quoted a charge of \$10 per customer associated with the inclusion of the customer in IBT's directory publication and delivery of the directory to the customer. In addition, IBT charges per amp of rated value on the terminal equipment in its office instead of for the actual power used. The power to run the digital loop carriers and fiber optic terminal equipment CCTS uses, as assessed by IBT, equates to approximately \$2 per line per month when the cost incurred by IBT is substantially less. This becomes apparent when one considers the charges for a 50,000 line office. Under IBT's pricing scheme, the electric charge for such a location would be about \$100,000 per month. Clearly, this charge is excessive. There are many other similar costs such as project management fees and monthly recurring charges for miscellaneous items, which make the service uneconomic. What is particularly troublesome about these costs is that they make facilities-based competition less economically viable because a competitor pays more for the service than a retail customer would if it took the service directly from IBT.

Second, IBT employs an unnecessarily complicated service order process, which makes it extremely difficult and time consuming to sign up new customers. Competitive carriers are required to order service utilizing IBT's special service circuits ordering process, which is more complex than the process for signing up new retail customers.

Third, IBT gives its local customers preferential treatment on service intervals. This means that new customers wishing to be served by IBT will be able to get service much more quickly than new CCTS customers located in areas in which IBT is the principal provider of exchange services.

Fourth, as a result of the lack of access to IBT's order and maintenance systems, CCTS is unable to provide its customers timely information on the progress of orders and repairs.